

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR
REGULATING RATES AND CLASSES FOR
MARKET-DOMINANT PRODUCTS

Docket No. RM2017-3

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
MOTION OF ALLIANCE OF NONPROFIT MAILERS, ASSOCIATION FOR
POSTAL COMMERCE, AND MPA—THE ASSOCIATION OF MAGAZINE
MEDIA FOR ISSUANCE OF INFORMATION REQUEST**
(March 15, 2018)

On March 8, 2018, the Alliance of Nonprofit Mailers, the Association for Postal Commerce, and MPA—the Association of Magazine Media (collectively “ANM *et al.*”), asked the Commission to request the workpapers for Appendix A to the Postal Service’s Initial Comments filed with the Commission on March 1, 2018, in this docket. Specifically, ANM *et al.* ask that the Commission direct the Postal Service not only to produce workpapers with “enough information to enable interested parties to verify fully the data, assumptions and calculations underlying the values reported in the two charts,” but to produce them in Excel format with “[e]ach cell . . . fully sourced, and all functions in the cells . . . preserved as functions rather than replaced with numbers.”¹

The Postal Service does not object to producing documents that identify the data and the quantitative assumptions underlying the net-loss figures reflected in Appendix A, which were produced using the Postal Service’s internal forecasting model. The Postal Service will submit those documents under seal in a non-public filing no later than Friday, March 16, 2018, and is amenable to having the Commission make that

¹ Motion of ANM *et al.* for Issuance of Information Request, PRC Docket No. RM2017-3 (Mar. 8, 2018), at 4 (hereinafter “ANM Motion”).

information available under protective conditions to those party representatives to whom the Commission has already granted access to the non-public version of Appendix A. As discussed below, the provision of this information will provide ANM *et al.* with more than enough information to prepare reply comments on Appendix A, given the limited purpose for which it was used by the Postal Service. However, providing any additional level of granularity is wholly unnecessary, and is disproportionate to the purpose for which Appendix A was submitted by the Postal Service or any legitimate purpose for which it may be used by ANM *et al.* at this stage of the proceeding (in which parties are filing reply comments). Accordingly, the Postal Service would oppose any request to, in effect, turn over its internal financial forecasting model.

The Postal Service submitted Appendix A to help illustrate why the Commission's proposal to retain the system but offer an additional 2 percentage points of supplemental rate authority would not even come close to giving the Postal Service a meaningful opportunity to achieve "medium-term financial stability" and thus will not solve the problem that the Commission's proposal seeks to resolve.² In other words, Appendix A illustrates the general magnitude to which the Commission's proposed alteration of the system is deficient based on the assumptions underlying the Postal Service's internal forecasting model. Given the limited purpose for which the Appendix was provided, the information to be filed under seal will give ANM *et al.* ample information to file comments in response to the Postal Service on this issue.

By contrast, the Postal Service did not propose that the Commission design a modified system predicated on the set of projections in Appendix A. Specifically, the

² USPS March 1 Comments at 54-55; *id.* at 68 fn.173.

Postal Service does not rely on Appendix A to suggest, let alone to propose, that the Commission should design a new system around a future “test year” or should otherwise rely on projected volumes or costs for purposes of establishing an appropriate revenue target or rate design over the next 5 years. Rather, the Postal Service proposes that the Commission abandon price-cap regulation altogether or, if it chooses to retain a price cap at this time, design a system that (1) resets the “going in” rates for market-dominant products to a reasonably compensatory level based on prior, representative financial results, and (2) allows for reasonable adjustments to the CPI-based formula to account for factors outside the Postal Service’s control that would significantly alter the reset rates’ contribution yield.³ The proposed adjustments, in particular, are based not on any specific forecast, but would adjust the CPI cap through mechanisms flexible enough to account for changes – in revenue-weighted volume, in the size of the delivery network, and in the amount of statutory benefits obligations – as they occur.⁴ Nothing in the Postal Service’s proposal is predicated on the accuracy of the projections in Appendix A or the assumptions underlying those projections.

For these reasons, the cases on ANM *et al.*’s motion relies are inapposite.⁵ Those cases deal with situations where the regulator relies on technical studies or data in formulating a rule. Here, however, the Postal Service is not asking the Commission to design a system that is predicated on the forecasts in Appendix A. Instead, those

³ USPS March 1 Comments at 48-76. While the Postal Service’s comments noted that the forecasts in Appendix A supported its position that a net-loss baseline of \$6.0 billion is most appropriate, *id.* at 63, that citation was merely an additional, supportive reference point for a proposal that was fundamentally based on a properly adjusted five-year average of actual past losses.

⁴ *Id.* at 68-76.

⁵ See ANM Motion at 3-4.

forecasts merely support the Postal Service's position that the proposed rule's use of an unrepresentative net loss baseline, and the failure to account for future volume and exogenous cost trends as they occur, does not come close to providing the Postal Service a meaningful opportunity to achieve the goal of "medium term stability". Accordingly, while the Postal Service does not oppose disclosing in a non-public filing the data and assumptions on which the charts are based, any additional information sought in ANM *et al.*'s motion has no bearing on its ability to file reply comments in this proceeding.⁶

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

Caroline R. Brownlie
Managing Counsel, Legal Strategy

David C. Belt
Chief Counsel, Legal Policy & Legislative
Advice

Jacob D. Howley

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-8917
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⁶ The Postal Service believes that the materials it has agreed to provide herein will meaningfully satisfy ANM *et al.*'s request. If the Commission determines the provision of additional information is necessary, however, the Postal Service proposes that the Commission request the information using the Product Cost & Contribution Estimation Model. The Commission is familiar with this model, which when using the same assumptions underlying Appendix A, and produces results nearly identical to those produced by the Postal Service's internal financial forecasting model.